

Message Text

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FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC PRIORITY 1326
INFO AMEMBASSY BELGRADE
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LIMITED OFFICIAL USE SECTION 1 OF 3 BUDAPEST 1714

E.O.11652: N/A
TAGS: ECON, EEWT, HU
SUBJECT: CENTRAL COMMITTEE RESOLUTION ADDRESSES ECONOMIC ISSUES

REF: BUDAPEST 1713

1. SUMMARY: THE RESOLUTION ISSUED AT THE CONCLUSION OF
THE HSWP CENTRAL COMMITTEE MEETING OF APRIL 19-20
(SUMMARIZED REFTEL) ENDORSES THE ECONOMIC POLICIES OF
THE 5TH FIVE-YEAR PLAN AND SUBSEQUENT POLICY STATEMENTS,
BUT FRANKLY DISCUSSES A NUMBER OF PROBLEMS OF IMPLEMENTA-
TION. DIFFICULTIES SINGLED OUT INCLUDE: SLOW ADAPTION
OF PRODUCTION PATTERNS TO REFLECT DOMESTIC AND
INTERNATIONAL POSSIBILITIES; POOR COORDINATION AND
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IMPLEMENTATION OF INVESTMENT PLANS; POOR UTILIZATION OF
SCARCE LABLR (AND POOR LABOR DISCIPLINE); AND THE NEED
TO UPDATE THE SYSTEM OF REGULATORS, PARTICULARLY THE
PRICE SYSTEM, TO ENCOURAGE MORE RATIONAL ECONOMIC MANAGE-
MENT. THE CC APPARENTLY APPROVED GUIDELINES FOR POLICY
CHANGES WHICH WILL BE ANNOUNCED IN THE NEAR FUTURE.

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M IN A SEPARATE SECTION ON LIVING STANDARDS AND SOCIAL POLICIES, THE RESOLUTION CLAIMS THAT LIVING STANDARDS AND THE AVAILABILITY OF GOODS HAVE IMPROVED, BUT ACKNOWLEDGES A 1 - 2 PERCENT SHORTFALL IN REAL INCOME GAIN AS COMPARED TO THE PLANNED RATE FOR FIRST TWO YEARS OF THE PLAN PERIOD. HOUSING, SERVICES, AND SPECIAL SOCIAL GOALS ARE DISCUSSED IN MORE DETAIL. THE OVERALL MESSAGE IS THAT GREATER EFFORTS AND ADAPTABILITY WILL BE NECESSARY TO MAINTAIN A MODEST RATE OF REAL GROWTH IN THE FACE OF DOMESTIC CONSTRACCS AND DIFFICULT WORLD CONDITIONS. END SUMMARY.

3. THE ECONOMIC SECTION OF THE CC RESOLUTION BEGINS BY PRAISING THE ACCOMPLISHMENTS OF THE HUNGARIAN ECONOMY AND NOTING THAT "THE 5TH FIVE-YEAR PLAN DETERMINES CORRECTLY THE DIRECTION OF OUR WORK." DESPITE PROGRESS, HOWEVER, "WE HAVE FAILED SO FAR IN UNFOLDING SUITABLY THE PROCESSES HELPING LASTINGLY THE MORE EFFICIENT DEVELOPMENT OF THE PEOPLE'S ECONOMY." AFTER GENERAL DISCUSSION OF THE CENTRAL IMPORTANCE IN THE HSWP'S WORK OF ECONOMIC DEVELOPMENT, THE RESOLUTION DISCUSSES FIVE PROBLEM AREAS, WHICH ARE SUMMARIZED BELOW IN ORDER OF PRESENTATION.

4. STRUCTURE OF PRODUCTION. THE RESOLUTION STRESSES THE NECESSITY FOR ENTERPRISES TO CONCENTRATE ON PRODUCTION OF A MORE SPECIALIZED RANGE OF HIGH-QUALITY PRODUCTS LIMITED OFFICIAL USE

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SUITABLE FOR HUNGARY'S RESOURCE ENDOWNMENTS. MODERNIZATION OF PRODUCT STRUCTURE IS THE TASK OF ENTERPRISES, BUT CENTRAL AUTHORITIES NEED TO MAKE BETTER USE OF REGULATORS TO STIMULATE ENTERPRISES TO DEVELOP ECONOMICAL PRODUCTION FASTER AND TO CURTAIL UNECONOMICAL PRODUCTION. NEED TO STRENGTHEN RESEARCH AND TO ADOPT TECHNOLOGY IN PRODUCTION IS ALSO STRESSED.

5. INVESTMENTS. RESOLUTION NOTES THAT THE LEVEL OF INVESTMENT HAS EXCEEDED PLAN TARGETS, CONTRIBUTING TO DEVELOPMENT OF ECONOMY BUT ALSO LEADING TO DELAYS IN COMPLETION AND EXCESS EXPENSES. SOME LARGE CENTRALLY FUNDED INVESTMENTS, IN PARTICULAR, ARE LAGGING (BASIC MATERIALS AND NON-PRODUCTIVE SECTION INVESTMENTS ARE CITED AS PROBLEM AREAS). RESOLUTION CALLS FOR BETTER ORDERING OF PRIORITIES, BETTER PREPARATION OF INVESTMENTS, AND PROMPTER COMPLETION OF WORK; IMPROVED REGULATORS ARE AGAIN CITED AS PARTIAL SOLUTION.

6. LABOR FORCE. RESOLUTION CRITICIZES PRESENT USE OF LABOR FORCE -- A SCARCE RESOURCE WITH LITTLE PROSPECT FOR GROWTH; "ONE ENCOUNTERS AT THE SAME TIME SHORTAGE OF

LABOR AND EXCESS LABOR." RESOLUTION CALLS FOR BETTER USE OF LABOR, BETTER TRAINING, AND MORE ATTENTION TO LABOR REQUIREMENTS OF NEW PROJECTS. AT THE SAME TIME, LABOR DISCIPLINE MUST BE IMPROVED, AND FREQUENT OR UNREASONABLE CHANGES OF JOBS MUST BE DISCOURAGED (BUT "OUR SOCIETY WILL CONTINUE TO ENSURE EVERYBODY THE RIGHT OF FREE CHOICE OF EMPLOYMENT"). ECONOMIC REGULATION IN GENERAL AND WAGE POLICY IN PARTICULAR SHOULD BE USED TO MAKE MANAGERS AND WORKERS MORE INTERESTED IN EFFICIENT LABOR PERFORMANCE.

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7. WORK WEEK. THE GENERAL REDUCTION OF THE WORK WEEK TO 44 HOURS, WITH ALTERNATE SATURDAYS OFF, IS PRAISED, AND THE GOAL OF FURTHER REDUCTIONS IS ENDORSED. HOWEVER, "THE CENTRAL COMMITTEE IS OF THE OPINION THAT THE INTRODUCTION OF THE FIVE-DAY WEEK IN THE EARLY EIGHTIES WITHOUT THE REDUCTION OF THE PRESENT WORKING TIME HAS TO BE PREPARED."

8. PRICES AND REGULATORS. THIS POINT STARTS WITH A

GENERAL DISCUSSION OF THE SUCCESS OF PAST EFFORTS TO
BALANCE CENTRAL ECONOMIC DIRECTION WITH ENTERPRISE
INDEPENDENCE THROUGH THE USE OF REGULATORS. THE PRICE
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SYSTEM IN PARTICULAR HAS BEEN SUCCESSFUL IN CONTROLLING
THE IMPACT OF WORLD MARKET PRICE INCREASES ON THE
HUNGARIAN ECONOMY. THIS HAS, HOWEVER, LED TO A GROWTH
OF SUBSIDIES AND TAXES, AND A SEPARATION OF PRODUCERS
AND CONSUMERS PRICES, WHICH IMPEDES EFFICIENT MANAGEMENT
AND SLOWS NEEDED ADJUSTMENTS IN THE STRUCTURE OF
PRODUCTION. "IN VIEW OF THIS THE CENTRAL COMMITTEE
CONSIDERS IT NECESSARY IN THE LONG RUN TO PERFECT OUR
PRICE SYSTEM CONSISTENTLY WITH THE OBJECTIVES OF OUR
ECONOMIC POLICY ..." SO THAT "... PRODUCERS AND CONSUMERS
PRICES REFLECT MORE TRULY THE REAL INPUT." INCOMES
POLICY WILL BE USED TO OFFSET HARDSHIPS CAUSED BY
CONSUMER PRICE CHANGES, BUT WITH INCREASED EMPHASIS ON
TYING WAGES TO PERFORMANCE.

9. LIVING STANDARDS AND SOCIAL POLICIES. THIS SECTION
BEGINS BY NOTING THAT, AS A RESULT OF THE DIFFICULT
ECONOMIC SITUATION, THE 23-25 PERCENT INCREASE IN REAL
INCOME PROPOSED AT THE 11TH PARTY CONGRESS WAS ALREADY
DECREASED TO 10-20 PERCENT BY THE TIME THE FIVE-YEAR
PLAN WAS FINALIZED. DESPITE STEADY IMPROVEMENT, GROWTH
OF REAL INCOMES IN THE FIRST TWO YEARS OF THE PLAN PERIOD
HAS LAGGED SLIGHTLY BELOW PLANNED RATE. THE HSWP WILL
CONTINUE TO EMPHASIZE IMPROVEMENT OF INCOMES AND STANDARD
OF LIVING. SPECIFIC SOCIAL POLICY AREAS DISCUSSED WERE:

- HOUSING: THE LONG-TERM EFFORT TO UPGRADE
HOUSING WILL CONTINUE, WITH PRIVATE AND COOPERATIVE
CONSTRUCTION CARRYING THE LARGER SHARE OF THE BURDEN.
 - SERVICES : INCREASING IMPORTANCE OF THE SERVICE
SECTOR IS RECOGNIZED; PROVISION OF SERVICES BY COOPERATIVES
AND ARTISANS NEEDS TO BE ENCOURAGED BY TAX AND REGULATORY
POLICY.
 - DISADVANTAGED GROUPS: FAMILIES WITH THREE OR MORE
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CHILDREN AND PENSIONERS WILL BENEFIT FROM INCREASED
ALLOWANCES AND OTHER MEASURES.

10. COMMENT: IT IS EVIDENT FROM THE RESOLUTION THAT
THE CENTRAL COMMITTEE APPROVED GUIDELINES ON A NUMBER OF
IMPORTANT ECONOMIC ISSUES -- GUIDELINES WHICH WILL

PRESUMABLY BE IMPLEMENTED BY GOVERNMENT DECISIONS IN THE NEAR FUTURE. THE MOST IMPORTANT AREA OF CHANGE WILL PROBABLY BE IN PRICE AND FISCAL POLICY; IT APPEARS THAT THE TAX AND SUBSIDY STRUCTURE WILL BE SUBSTANTIALLY MODIFIED TO MAKE PRICES MORE ACCURATELY REFLECT COSTS, TO ELIMINATE THE ARTIFICIAL SEPARATION OF THE PRODUCERS AND CONSUMERS PRICE STRUCTURES, AND TO REDUCE THE SUBSIDIZATION OF INEFFICIENT ENTERPRISES. IT MAY ALSO BE THAT THE NUMBER OF FREE PRICES WILL BE SUBSTANTIALLY INCREASED. OTHER CHANGES MAY INCLUDE TIGHTENING OF CREDIT POLICY AND HIGHER TAXES ON ENTERPRISE INCOMES TO INCREASE CENTRAL CONTROL OVER INVESTMENTS, CHANGES IN TAX AND OTHER REGULATORY CONTROLS TO DISCOURAGE WASTEFUL USE OF LABOR, AND CHANGES TO TIE WAGES MORE CLOSELY TO ENTERPRISE PROFIT OR OTHER PRODUCTIVITY MEASURES.

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11. THESE CHANGES HAVE NOT BEEN DECIDED ON SUDDENLY; IN THE STYLE OF THE NEM, COMMITTEES HAVE BEEN WORKING ON PROPOSALS FOR MAJOR TAX AND PRICE REFORM AT LEAST SINCE

EARLY LAST FALL. IMPLEMENTATION WILL PROBABLY ALSO BE GRADUAL, STRETCHING AT LEAST OVER THE REMAINDER OF THE FIVE-YEAR PLAN PERIOD. NATIONAL BANK OFFICIALS HAVE FOR SOME TIME BEEN TALKING ABOUT A 1980-81 TARGET DATE FOR ELIMINATION OF THE DUAL FOREIGN EXCHANGE RATE SYSTEM, ALWAYS NOTING THAT THIS WOULD HAVE TO BE PRECEDED BY INTERNAL REFORMS TO ELIMINATE THE DICHOTOMOUS SEPARATION OF THE PRODUCERS AND CONSUMERS PRICE SYSTEMS. WHILE NOT UNEXPECTED, THESE DECISIONS ARE NONETHELESS VERY IMPORTANT. THEY CONSITUTE A STRONG REAFFIRMATION OF THE NEW ECONOMIC MECHANISM'S PRINCIPLES OF USING MARKET LIMITED OFFICIAL USE

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FORCES AND INDIRECT ECONOMIC REGULATORS RATHER THAN DIRECT CONTROLS TO MOVE THE ECONOMY TOWARDS GREATER EFFICIENCY. FOREIGN ECONOMIC POLICY WAS SCARECELY MENTIONED IN THE RESOLUTION -- ALTHOUGH THE DOCUMENT REFERRED TO WIDENING RELATIONS WITH THE WESTERN COUNTRIES. IN ANY CASE, THE DIRECTION OF CHANGE FULLY SUPPORTS THE STRONG CENTRAL PARTY STATEMENT OF OCTOBER, 1977, WHICH CALLED FOR GREATER SPECIALIZATION AND ECONOMIC INTERACTIONS WITH COUNTRIES OF ALL ECONOMIC SYSTEMS.

12. WHILE THE CENTRAL COMMITTEE REAFFIRMED ITS COMMITMENT TO THE GOAL OF IMPROVING THE LIFE STYLE OF THE HUNGARIAN CONSUMER AND SUGGESTED GREATER SCIPE FOR PRIVATE INITIATIVE IN HOUSING AND THE SERVICE INDUSTRIES, THE RESOLUTION, TOGETHER WITH OTHER RECENT PROJECTIONS OF SOMEWHAT SLOWER GROWTH OF OUTPUT AND EMPHASIS ON EXPORT GROWTH OVER INCREASED DOMESTIC CONSUMPTION, PROMOTES LITTLE SHORT-TERM IMPROVEMENT IN LIVING STANDARDS. RATE OF REAL INCOME GROWTH WILL BE SLOW, PRICE CHANGES WILL BE MORE COMMON AND MORE BURDENSOME, UP-GRADING OF HOUSING AND OTHER SOCIAL SERVICES WILL CONTINUE AT THE PRESENT SLOW SPEED, REDUCTIONS IN WORKING HOURS ARE SOME YEARS OFF,AND INCOMES WILL BE TIED MORE CLOSELY TO WKRK PERFORMANCE. THE POPULATION IS ASKED TO WORK MORE EFFICIENTLY AND WITH MORE DISCIPLINE WHILE UNDERSTANDING THAT BECAUSE OF WORLD ECONOMIC CONDITIONS ONLY A GRADUAL IMPROVEMENT IN THE STANDARD OF LIVING IS POSSIBLE. END COMMENT.
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